late on a friday

28 August 2015: "From Black Monday to Green Friday…"

If you were in the bush during with no contact to the outside world the week, you might be forgiven to think what all the fuss was about. Following what was dubbed "Black Monday", when financial markets crashed in unison due to concern over Chinese economic growth, markets have recovered most of the losses incurred, although currencies that sold off did not perform as well. It started with the Chinese equity market which nosedived by 8.5% on Monday after the release of disappointing manufacturing numbers and fresh on the heels of the recent currency devaluation that spooked investors. The panic caused a tidal wave of selling that pushed many markets into correction – a fall of 10% or more. The Dow Jones Index fell by more than 1,000 points after opening on Monday and expectations for a US Fed interest rate hike next month faded away. Financial market volatility spiked to cyclical highs last seen during the 2008/9 Financial Crisis.

The Chinese central bank stepped in with support for their economy by cutting interest rates as well as the reserve requirement ratio for banks on Wednesday and Thursday's release of much stronger-than-expected US GDP data calmed fears. The second estimate of US GDP showed that the economy grew by a robust 3.7% during the second quarter – a sharp upwards revision from the earlier estimate of 2.3% and much stronger than even the most optimistic estimate. It reinforced the view that the economic recovery remained intact and displayed strong consumer demand. The global market turmoil versus robust US growth clouds the outlook whether the Fed will hike interest rates this year.

In sharp contrast to the improving US economy, second quarter GDP data for South Africa showed broad based weakness in the economy that led to a contraction of 1.3%. The release was much worse than expected and year-on-year GDP growth decelerated to 1.2%. Both the mining and manufacturing sectors contracted as they were unable to take advantage of the more competitive exchange rate. Recessionary risks are developing for 2016 and current year growth estimates are rapidly being revised lower. National Treasury still needs to assess the full impact from the slowdown, but the Medium Term Budget Policy Statement in October will be under renewed pressure from the deceleration in economic activity that will hurt revenues and bring it under the spotlight of the global credit rating agencies.

DOMESTIC EQUITY		WEEK CHANGE	YTD CHANGE
JSE ALL SHARE	49,553.10	1.07%	-0.44%
JSE FIN 15	16,318.51	1.25%	4.33%
JSE IND 25	63,617.31	1.39%	2.03%
JSE RES 20	35,382.51	0.16%	-15.62%
JSE GOLD	939.09	-8.20%	-17.98%
JSE ALL SHARE 40	43,988.30	1.34%	0.04%
INTERNATIONAL EQUITY			
DOW JONES (USA)	16,654.77	1.18%	-6.55%
NASDAQ (TECH USA)	4,812.71	2.27%	1.62%
FTSE (LONDON)	6,169.74	-0.29%	-6.04%
NIKKEI (TOKYO)	19,136.32	-1.54%	9.66%
GLOBAL EQUITY	1,650.53	-0.03%	-3.46%
EMERGING MARKET EQUITY	813.08	0.09%	-14.98%
OTHER			
ALL BOND INDEX	494.46	0.00%	2.80%
3 MONTH NCD YIELD	6.35	-0.47%	0.00%
R/DOLLAR	13.22	1.99%	15.46%
R/EURO	14.90	0.90%	6.48%
R/POUND	20.33	0.56%	13.25%
GOLD	1,127.88	-2.47%	-5.95%
OIL (BRENT)	47.17	3.76%	-17.72%

Financial market whiplash: on Monday, risky assets continued their declines from the previous week with a "flash crash" and approached record cyclical losses due to indiscriminate selling that pushed them into correction. But most of the losses were erased after the Chinese government stepped in with emergency measures and US economic data surprised to the upside. The local FTSE/JSE All Share Index rose 1.1% during the week, but the rand remained under pressure and depreciated by 2% against the dollar to R13.22. In pre-market trade on Monday, the rand dropped to an all-time low of R14 against the greenback before it recovered during normal trade. The price of oil fell to its lowest level this year, sparking deflationary fears, but recovered sharply on Thursday when it rose the most in 6 years due to a fall in stock piles.

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